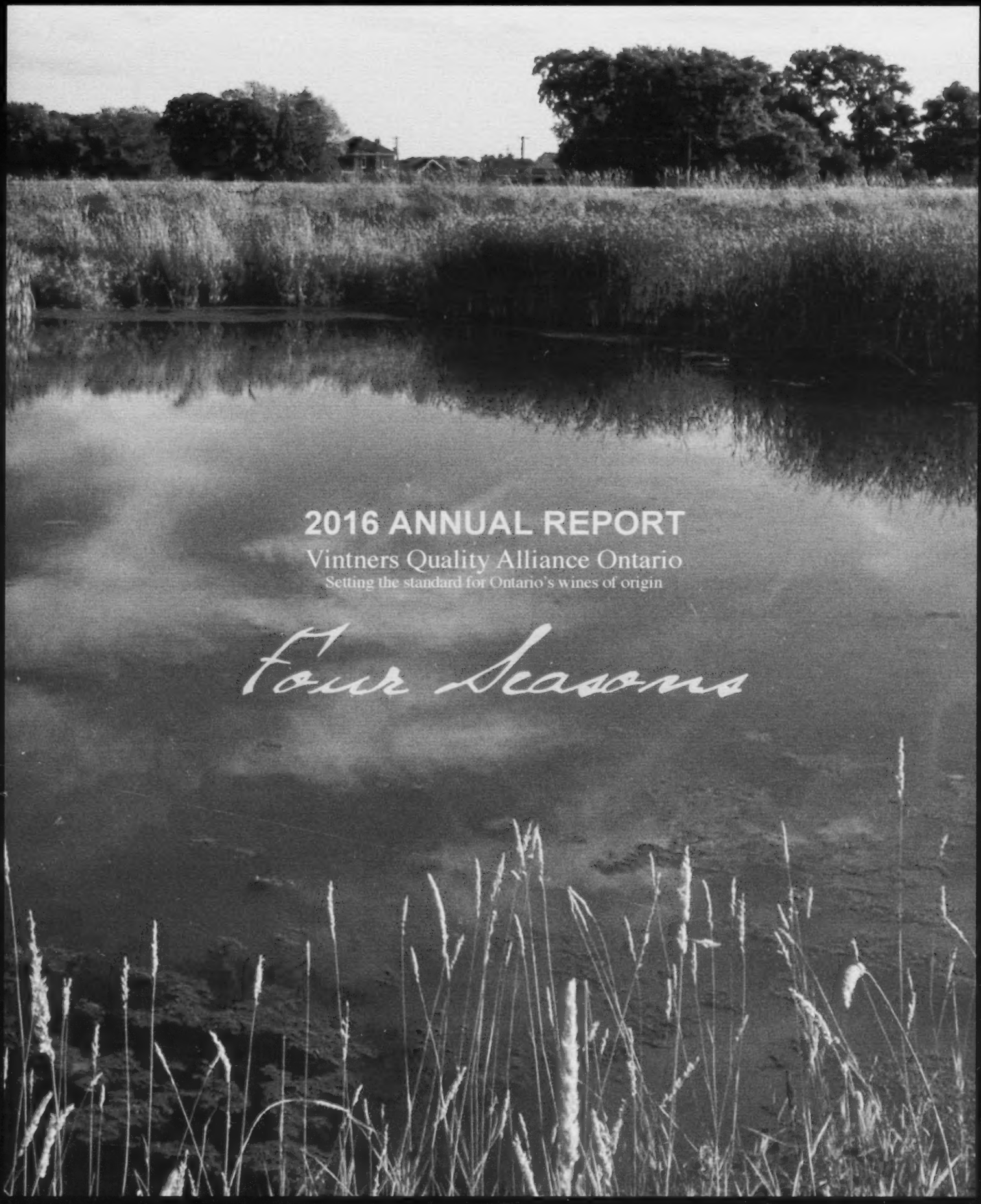


2016 ANNUAL REPORT

Vintners Quality Alliance Ontario

Setting the standard for Ontario's wines of origin

Four Seasons

Who We Are

VQA Ontario is Ontario's wine authority that regulates Ontario's wines of origin and the appellation system as defined under the VQA Act of Ontario. It exercises delegated authority from the Province of Ontario to ensure label integrity that allows consumers to identify wines of origin made entirely from Ontario grown grapes.

VQA Ontario is committed to working with and on behalf of consumers and its stakeholders in industry and government to promote a better awareness of Ontario's wine regions and wines of origin.

Vision

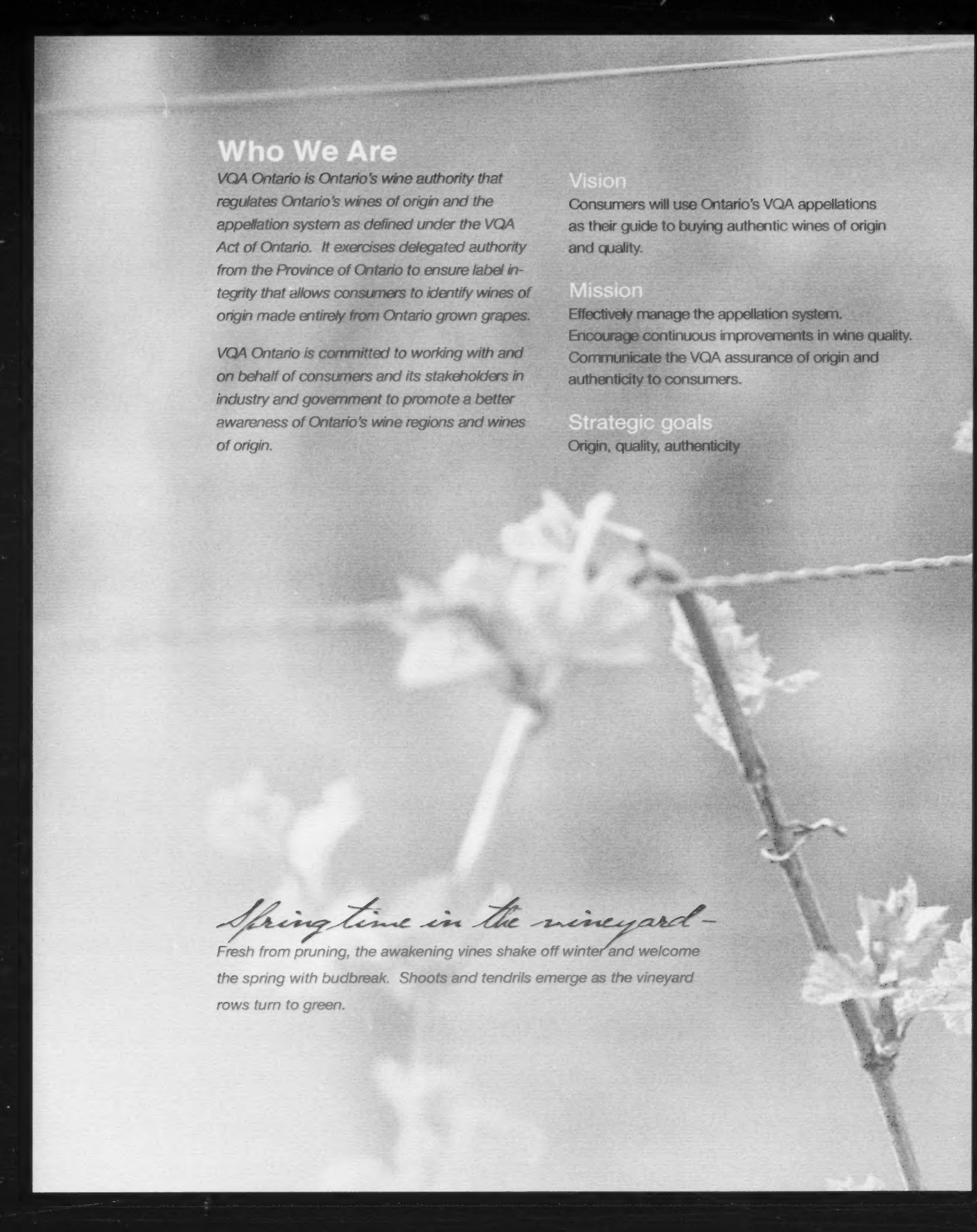
Consumers will use Ontario's VQA appellations as their guide to buying authentic wines of origin and quality.

Mission

Effectively manage the appellation system.
Encourage continuous improvements in wine quality.
Communicate the VQA assurance of origin and authenticity to consumers.

Strategic goals

Origin, quality, authenticity



Springtime in the vineyard –

Fresh from pruning, the awakening vines shake off winter and welcome the spring with budbreak. Shoots and tendrils emerge as the vineyard rows turn to green.

Officers

Brian Schmidt (6)
President and Chair
(elected from Vineland Estates Winery)

Louise Engel (4)
Vice-Chair
(elected from Featherstone Estates)

Paul Kassebaum (5)
Secretary
(elected from Constellation Brands)

Bill Redelmeier (3)
Secretary
(elected from Southbrook Vineyards)

Directors

Greg Berti (4)
(elected from Andrew Peller Ltd.)

Jim Clark (5)
(elected from Colio Wines)

Ken Douglas (4)
Past-Chair
(elected from Thirteenth Street Wine Corp.)

Tony Elenis (5)
(appointed from Ontario Restaurant, Hotel and Motel Association)

Frank (Lanny) Huff (4)
(elected from Huff Estates)

Mary Shenstone (6)
(appointed from Ministry of Citizenship, Immigration and International Trade)

Paul Speck (6)
(elected from Henry of Pelham Family Estate Winery)

Kevin Watson (5)
(appointed from Grape Growers of Ontario)

Martin Werner (4)
(elected from Ravine Vineyards)

Staff and Statutory Appointments

Laurie Macdonald
Executive Director

Barbara Dodds
Office Manager (VQA Inspector)

Susan Piovesan
Compliance Officer and IT Systems Administrator (VQA Inspector)

Katherina Radcliffe
Communications Officer

Attendance at Board meetings:
Six Board meetings were held in 2015-2016. The number of Board meetings each Director attended is indicated beside their name.

A time for planting –

new vineyards and new varieties, replenishing the terroir with new vines that will grow and sustain the future.

Organizational Values

Transparency and Fairness

VQA Ontario will carry out its statutory authority with transparency and fairness, and strive to uphold high ethical standards.

Responsiveness and Communications

VQA Ontario will conduct its operations openly, providing its members and the public access to information and timely responses to inquiries. It will adopt and implement appropriate policies to respect the confidentiality of its members and stakeholders. It will promote the value and benefits of VQA wines to consumers.

Firmness and Responsibility

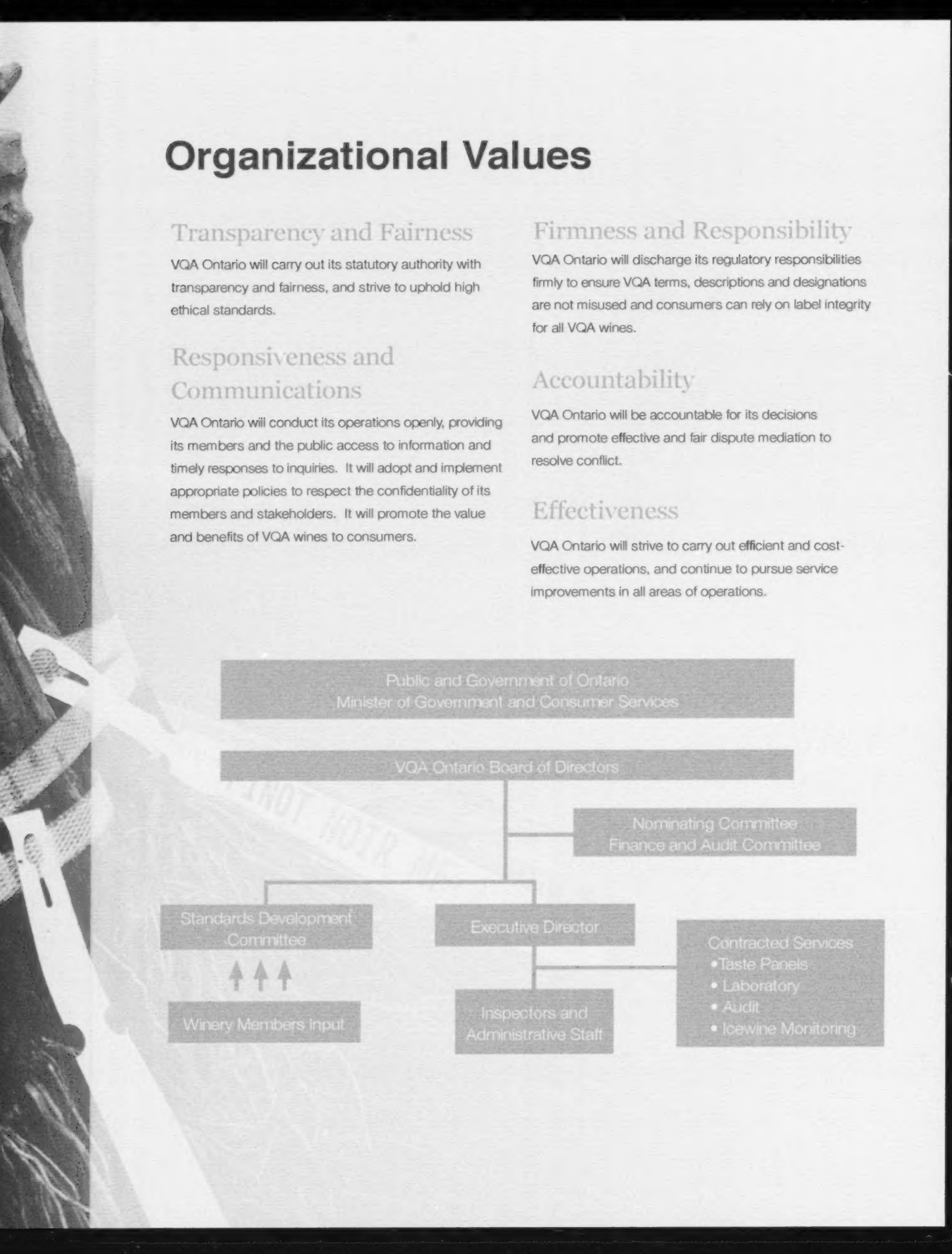
VQA Ontario will discharge its regulatory responsibilities firmly to ensure VQA terms, descriptions and designations are not misused and consumers can rely on label integrity for all VQA wines.

Accountability

VQA Ontario will be accountable for its decisions and promote effective and fair dispute mediation to resolve conflict.

Effectiveness

VQA Ontario will strive to carry out efficient and cost-effective operations, and continue to pursue service improvements in all areas of operations.



Message from the Chair

Having chaired the VQA Ontario Board for several years now, I continue to be surprised at how each year brings a list of new opportunities and activities. Along with our core and routine activities of wine approvals and monitoring compliance, we have been working through regulation updates, new communications initiatives and delivering the inaugural "Wine and Grape Industry Performance Study".

On top of all this, the weather continues to throw the curve balls that shape our wines and ultimately define our appellations. Unfortunately, neither I nor VQA can do much about the weather except join you in wondering "What the heck is it doing now?".

Last year, I noted that we need to do a better job of communicating how the VQA appellation system adds value to the wines we make. All of us know that origin and quality are an important part of the story of every wine yet we have struggled to simplify the VQA message for consumers and even for ourselves. We need to start by making sure that there is a common understanding within the industry of what a VQA label means, what VQA Ontario does, and how it is relevant to the industry and consumers. In October 2015, we welcomed Katherina Radcliffe to the new VQA Ontario position of communications officer to lead and focus our communications.

In short our message is:

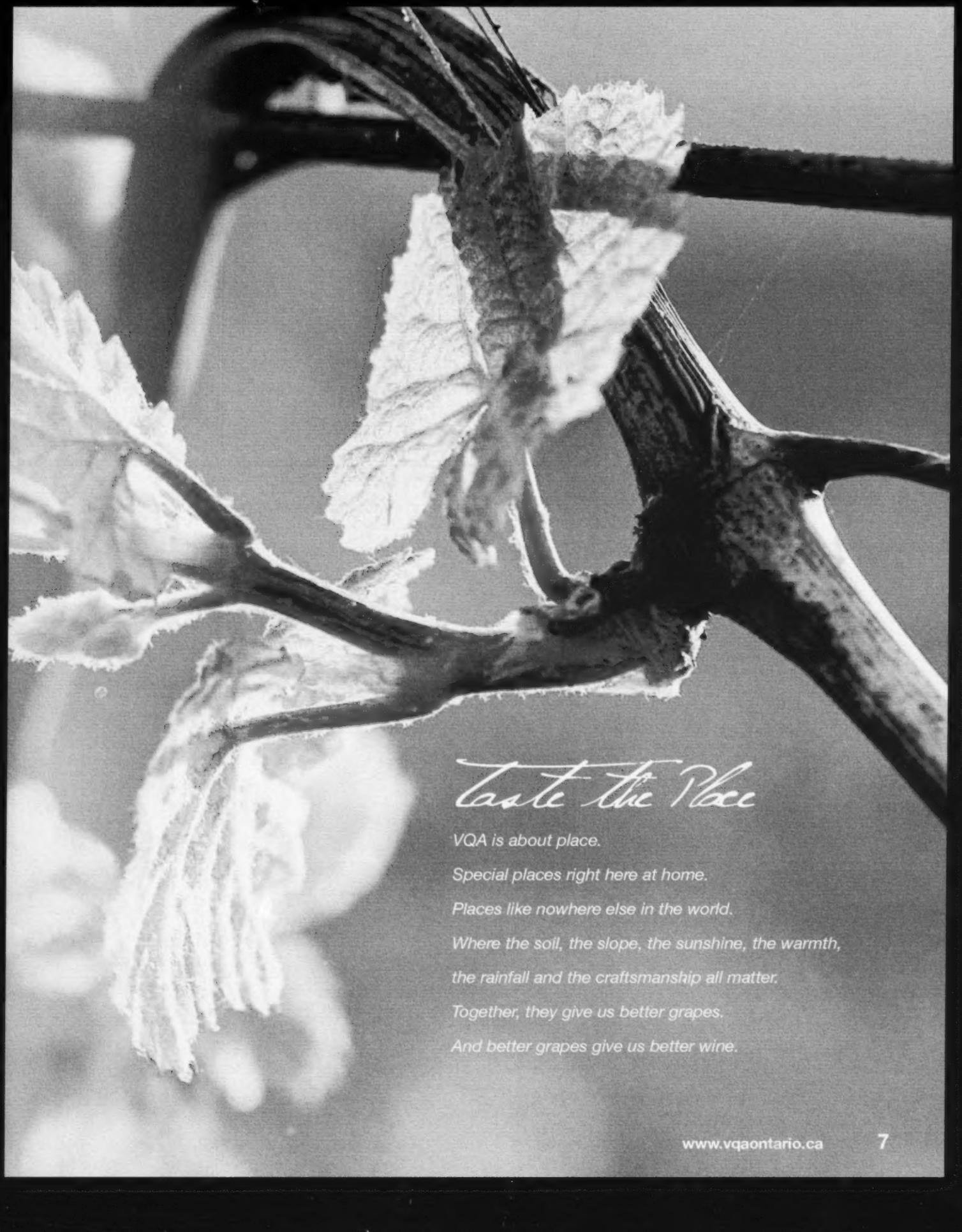
VQA is about origin, quality and authenticity. Look for the VQA letters on the front label and you will find the place where the grapes were grown. VQA certification means you can trust that the wine is 100% authentic Ontario wine of origin.

For VQA wineries, I invite you to use VQA more effectively to add value to your brand. It is your appellation system. There is lots of evidence that consumers choose wines based on origin and that appellation plays a more significant role in higher value wines. The guarantee of origin is especially important to Canadian wine drinkers who are and want to be proud supporters of the local team. The story of every VQA wine is enhanced by origin and the integrity of an industry-wide standard. VQA Ontario issued a short booklet in early 2016, highlighting the role and value of the appellation system in Ontario. See it on our website at www.vqaontario.ca.

We also heard from wineries that there is a need to reach trade and consumers directly with a simple message about VQA. Competition for hearts and minds in the wine world – and consumer trust – is fiercer than ever. We need to deepen the understanding of the value of VQA certification. With the help and support of the Wine Marketing Association of Ontario, we have developed a rack card that offers simple touch points that explain VQA and how to interpret a VQA wine label. These cards provide an easy short hand for VQA – give them to your front line staff, licensees, agents and retail customers. I encourage you to use them and give us feedback so we can all benefit from the system we have built together.

Many, many people contribute to making VQA work and you know who you are. I was very pleased to welcome Paul Kassebaum and Martin Werner as new Directors to the Board last summer and I look forward to working with them both. I also want to especially thank all of those at wineries who have taken the time to share their opinions, and advice and comments on all aspects of what we do (or should do!). We really need your collective wisdom to get it right.

Brian Schmidt
President and Chair


Taste the Place
VQA is about place.
Special places right here at home.
Places like nowhere else in the world.
Where the soil, the slope, the sunshine, the warmth,
the rainfall and the craftsmanship all matter.
Together, they give us better grapes.
And better grapes give us better wine.

Operations

Executive Director's Report

On the operational side, VQA Ontario's core business activities continued at a steady pace. The number of wineries participating in the VQA system grew to 161. Most related activities grew with membership but wine approvals volume was lower, reflecting a smaller grape crop in recent years. Wine statistics and performance measures can be found later in this report.

Last year was very busy with special projects. We completed the first sensory trials of our long term research into the profile and character of VQA wines in August of 2015. This ongoing research is focused on the similarities and differences in viticulture and winemaking practices within Ontario and between appellations and how they influence wine character.

Several regulatory amendments are also under review and I look forward to working through these processes to keep the regulations up to date.

At the request of the Ontario Wine Industry Government-Industry Steering Committee, VQA Ontario developed and implemented the first annual Wine and Grape Industry Performance Study. The study was funded by OMAFRA through the Ontario Wine and Grape Strategy and provides an overview of the state of the industry based on a comprehensive survey of active wineries and grape growers. Information is presented on the financial state of the industry, including the impact of tourism and hospitality. We hope this becomes a useful tool for both government and industry.

VQA Ontario also participated in a service efficiency study conducted by the Ministry of Government and Consumer Services to assess the performance of its

Administrative Authorities. This study involved a detailed and comprehensive review of operations and service delivery. The study reaffirmed the value of the Administrative Authority model, where industry managed authorities can administer low risk regulations more nimbly than government. VQA Ontario performed very well in benchmarking against both government agencies and other Administrative Authorities. Since VQA Ontario's inception in 2000, overall expenses to administer the system have increased at significantly less than half the rate of growth in the sector. Fees have been decreased several times.

Over 15 years, wine approval applications have more than doubled and the success rate of these applications has improved from 92% to 97%. The level of compliance with VQA regulations is sustainably at levels of 95% and higher.

As highlighted in the Chair's message, we will be devoting more efforts to communications and engaging our winery members and all partners in what we do and how it is relevant to you and your customers. We will be looking to expand our contacts beyond the technical side of our wineries and encourage all of you in management, marketing, retail and other areas to have more contact with VQA Ontario.

It was another productive year, and I appreciate all the feedback and support from wineries and all of our other stakeholders. It is your appellation system and your engagement is the key to its success. Thanks also to my wonderful staff who keep everything working smoothly.

L. Macdonald

Laurie Macdonald
Executive Director

Vintage Report 2015

Niagara Peninsula • Lake Erie North Shore • Prince Edward County

Conditions

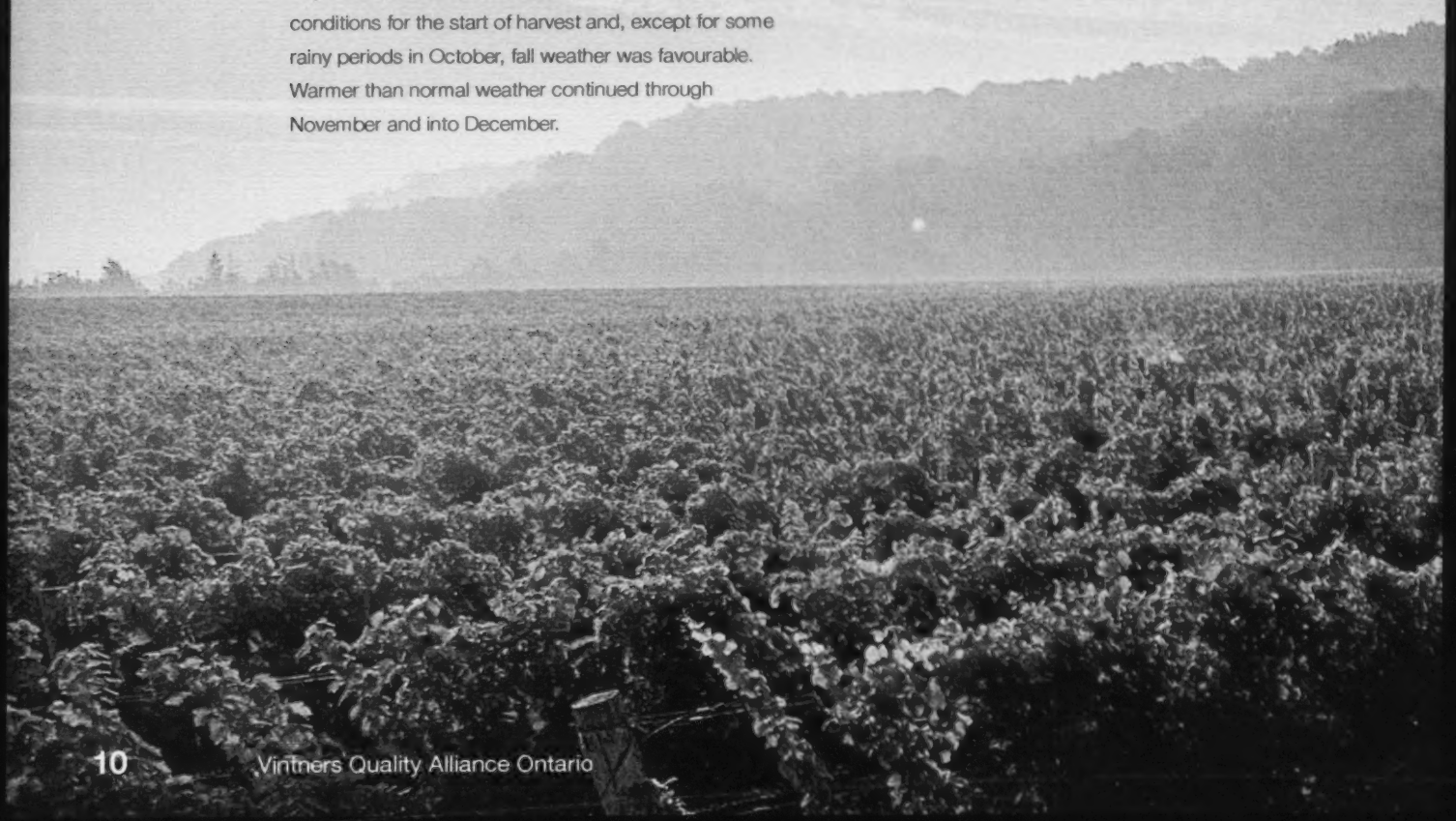
Weather conditions in Southern Ontario were variable and often record-breaking in 2015. It was unusually cold and dry in January followed by a brutally cold February that brought more snow than normal and shattered low temperature records across the province. Mean temperatures were about 8 degrees below normal for February and most regions experienced below freezing temperatures for the entire month. March continued to be colder than normal resulting in a lot of anxiety about potential crop damage. Although April and May were relatively normal, the bizarre weather swings resumed with an exceptionally wet June followed by a very dry July.

The summer growing season brought excellent conditions with few major storms and sunny warm weather in all appellations. Niagara was slightly drier than Prince Edward County and Lake Erie North Shore. September weather settled nicely into warm beautiful conditions for the start of harvest and, except for some rainy periods in October, fall weather was favourable. Warmer than normal weather continued through November and into December.

Harvest

Harvest conditions were excellent and good weather prevailed for much of the harvest period. There were a few rainy spells to work around in October but the extended warm fall provided flexibility to manage picking schedules.

Overall, grape production across the province was just moderately less than normal and is expected to be slightly more than 2014 when tonnes harvested was substantially less than previous years. Cold temperatures in January and February 2015 resulted in markedly reduced crop yields in Lake Erie North Shore, and less than full production in Niagara Peninsula and Prince Edward County. Tender grape varieties in particular are expected to be in short supply.

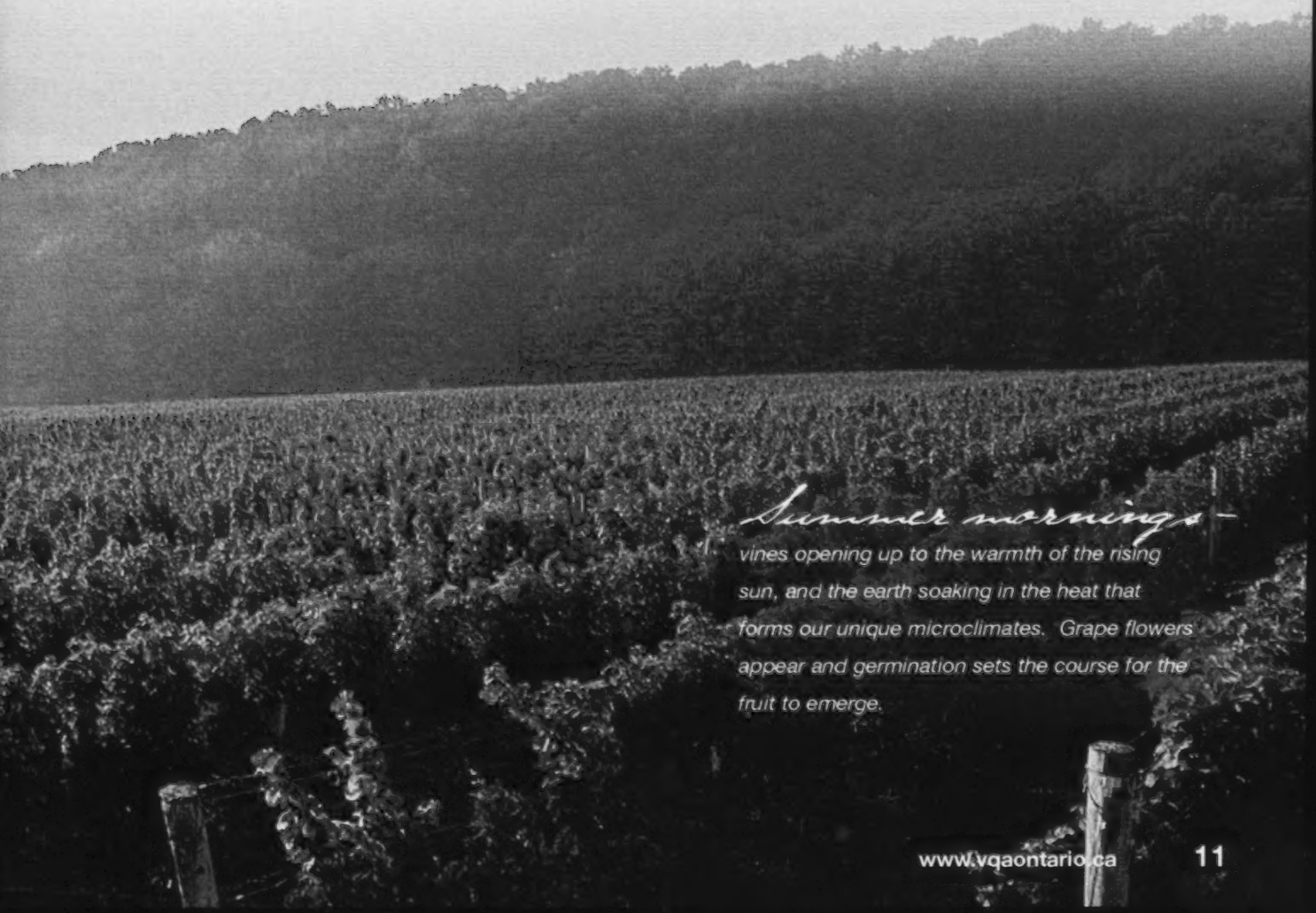


Preliminary registrations for Icewine and Late Harvest grapes show that production is likely to increase slightly over that in 2014, and remain close to the 10-year average of 4400 tonnes. An estimated 4860 tonnes have been registered compared to 3850 tonnes in 2014.

Wine Expectations

2015 was a year of unusual and unpredictable weather that reminded us again of one of the significant features of wine of origin – its connection to the climate and grape growing conditions of the place where the grapes are grown. Natural conditions set the stage for the wines produced in each vintage and each region looks to the right viticultural and winemaking practices based on the grapes they grow.

The temperamental weather averaged out in the end and the wines of 2015 will benefit. Expect Ontario's classic varieties to show well and also look for good concentration and flavours for the longer ripening varieties that profited from the warm, dry summer and fall, but perhaps with limited availability for some varietals from some producers. This year was quite variable so each wine is likely to reflect the care and attention of its coach.



Summer mornings – vines opening up to the warmth of the rising sun, and the earth soaking in the heat that forms our unique microclimates. Grape flowers appear and germination sets the course for the fruit to emerge.

Goals and Activities

Performance goals

Manage Ontario's wine appellation system with a focus on origin, quality and authenticity

Promote recognition and understanding of the VQA appellation system

Protect consumers through label integrity

Provide a strong, transparent and credible framework for the production and labelling of wines of origin

Activity Highlights

10 new member wineries
97% overall success rate for wine approval applications
Chardonnay the top production VQA varietal wine
1539 export certificates issued
322 audits and inspections conducted
3 compliance orders issued

Membership

161 wineries were registered as participants in the VQA program at the end of March 2016. These included 6 large wineries (sales of over 750,000 litres of VQA wines) 21 medium class wineries (sales of 100,000 to 750,000 litres of VQA wines) and 134 small wineries (sales of up to 100,000 litres of VQA wines). Regular member communications included newsletters and bulletins, through various electronic channels.

Product Approvals

1869 applications for approval to use the VQA designation and descriptive terms regulated under the VQA Act were processed. Each wine must successfully complete comprehensive quality assurance testing including a taste test, laboratory analysis and packaging review before being certified as a wine of origin. Approvals were granted for 1803 wines, and denied for 66.

Quality

Maintaining quality standards continues to be an important part of VQA Ontario's mandate. In addition to enforcing standards, VQA Ontario runs two programs to support and encourage wineries to pursue the best quality outcomes possible and exceed minimum standards. Winemakers Forums, held in all wine regions, are a venue where winemakers share experiences and best practices in an informal setting and discuss techniques that are especially successful in Ontario's unique growing conditions. The second program provides an analysis of outcomes at the VQA tasting panel that allows wineries to benchmark themselves and gain insights into how performance might be improved. These two programs often work together with information from the tasting analysis providing topics for discussion at the Winemakers Forums. VQA Ontario continues to work with the Cool Climate Oenology and Viticulture Institute to promote professional development.

Inspections and Audits

182 routine audits were conducted during 2015 – 2016 to verify compliance with origin and production standards for all approved VQA wines. Each winery member was subject to an on-site audit at a 6 to 12 month interval, depending on their compliance record.

In addition, 140 random inspections were completed at the retail level, focused primarily on ensuring ongoing compliance with VQA packaging and labelling regulations. As a result of audits and inspections, follow up was conducted in 64 cases. The majority of issues addressed were minor in nature. 188 websites were reviewed for compliance.

Enforcement

Most compliance issues were resolved with warnings and corrective actions. VQA Ontario issued 3 compliance orders in relation to wineries using regulated terms without approval or failing to take corrective action within a stipulated time.

Trade and Export Development

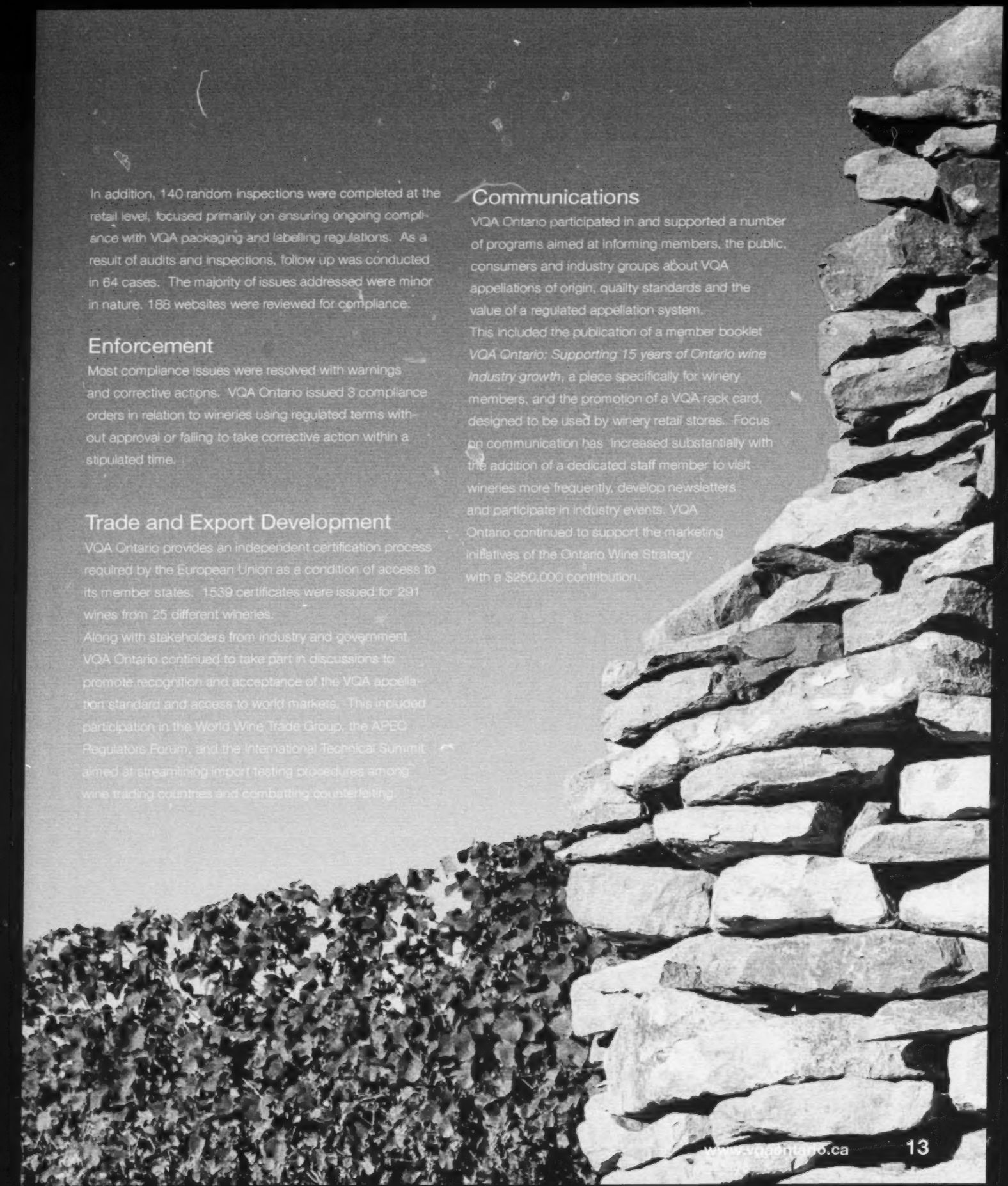
VQA Ontario provides an independent certification process required by the European Union as a condition of access to its member states. 1539 certificates were issued for 291 wines from 25 different wineries.

Along with stakeholders from industry and government, VQA Ontario continued to take part in discussions to promote recognition and acceptance of the VQA appellation standard and access to world markets. This included participation in the World Wine Trade Group, the APEC Regulators Forum, and the International Technical Summit aimed at streamlining import testing procedures among wine trading countries and combatting counterfeiting.

Communications

VQA Ontario participated in and supported a number of programs aimed at informing members, the public, consumers and industry groups about VQA appellations of origin, quality standards and the value of a regulated appellation system.

This included the publication of a member booklet *VQA Ontario: Supporting 15 years of Ontario wine industry growth*, a piece specifically for winery members, and the promotion of a VQA rack card, designed to be used by winery retail stores. Focus on communication has increased substantially with the addition of a dedicated staff member to visit wineries more frequently, develop newsletters and participate in industry events. VQA Ontario continued to support the marketing initiatives of the Ontario Wine Strategy with a $250,000 contribution.



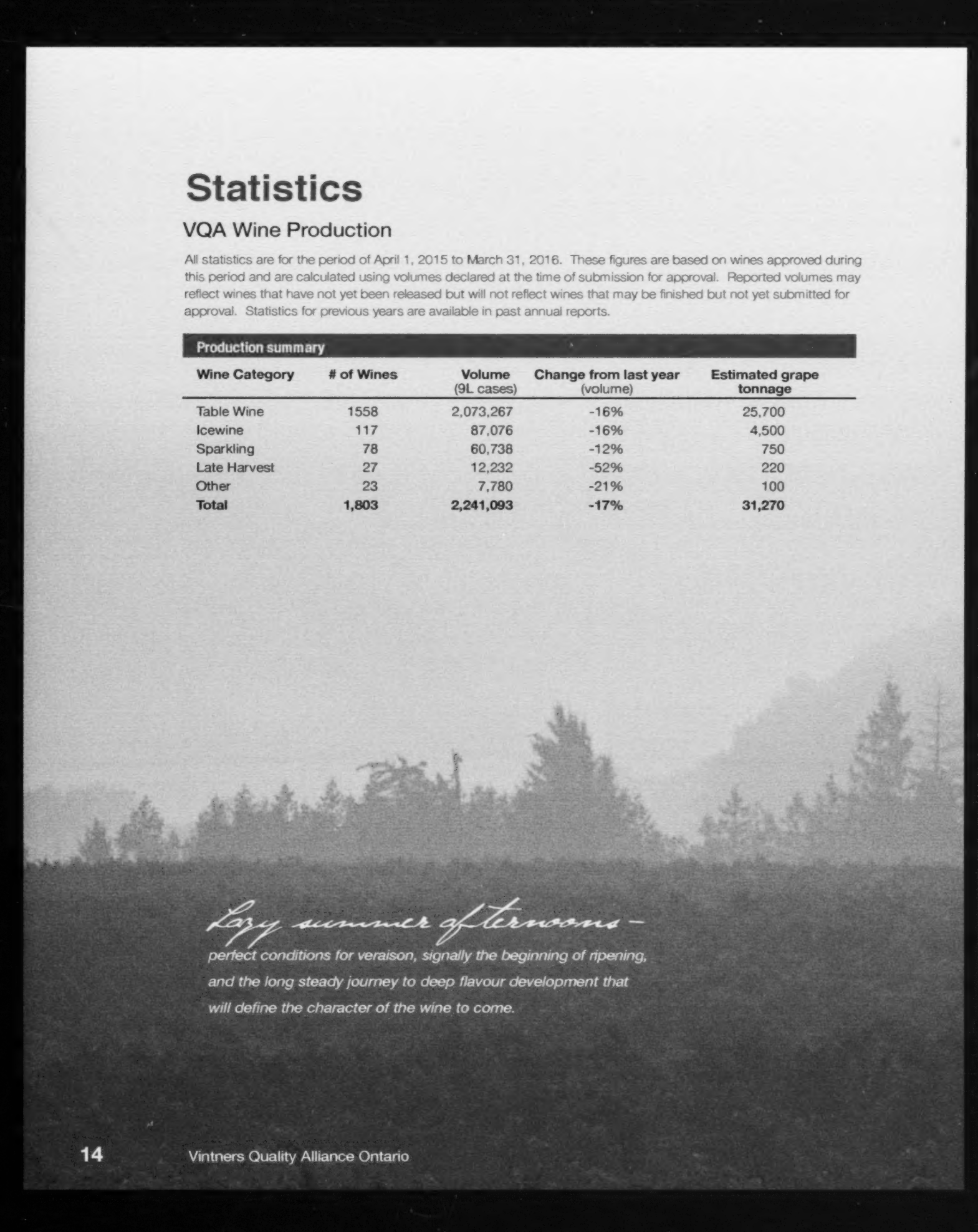
Statistics

VQA Wine Production

All statistics are for the period of April 1, 2015 to March 31, 2016. These figures are based on wines approved during this period and are calculated using volumes declared at the time of submission for approval. Reported volumes may reflect wines that have not yet been released but will not reflect wines that may be finished but not yet submitted for approval. Statistics for previous years are available in past annual reports.

Production summary

Wine Category	# of Wines	Volume (9L cases)	Change from last year (volume)	Estimated grape tonnage
Table Wine	1558	2,073,267	-16%	25,700
Icewine	117	87,076	-16%	4,500
Sparkling	78	60,738	-12%	750
Late Harvest	27	12,232	-52%	220
Other	23	7,780	-21%	100
Total	**1,803**	**2,241,093**	**-17%**	**31,270**



Lazy summer afternoons –

perfect conditions for veraison, signally the beginning of ripening, and the long steady journey to deep flavour development that will define the character of the wine to come.

Regional and Varietal Production

Appellations

This table includes all wines labelled with the stated appellation on the principal display panel. These wines must contain at least 85% content from the stated appellation. Wines labelled with one of the ten sub-appellations of the Niagara Peninsula must contain 100% content from the stated sub-appellation. Production by appellation remained fairly steady but the proportion of wines labelled with the general Ontario origin increased slightly from 26% to 28%.

Appellations

As declared on label	Cases (9L)	% of all VQA wines
Niagara Peninsula	1,271,485	57%
Ontario	627,478	28%
Sub-appellations of Niagara	300,987	13%
Lake Erie North Shore	11,938	1%
Prince Edward County	29,205	1%

Grape varieties used in all VQA wines (Total of 47 different varietals)

Variety	% of total production (by volume)
Riesling	18.0%
Cabernet Franc	14.2%
Chardonnay	13.8%
Cabernet Sauvignon	9.1%
Merlot	8.3%
Vidal Blanc	7.5%
Pinot Noir	5.9%
Pinot Gris/Pinot Grigio	5.9%
Gamay Noir	3.7%
Baco Noir	3.4%
Sauvignon Blanc	3.2%
Gewürztraminer	2.9%
Syrah	1.1%
Other	3%

Just over half of production is sourced from the four grape varieties, Riesling, Cabernet Franc, Chardonnay and Cabernet Sauvignon. Cabernet Sauvignon has moved into the top four, replacing Merlot. Cabernet Franc has also moved up in the list from third most popular by volume to second.

Red grape varieties used in all VQA wines – 54%
White grape varieties used in all VQA wines – 46%

Table wines

The table wine category includes white, red and rosé wines. After many years of steady increases, overall production of table wine decreased by 16% over the past year. Wines labelled with a grape variety or varieties continue to dominate the table wine category, accounting for 90% of all table wines.

Colour		Litres	Cases (9L)
White (49%)	Varietal	8,892,414	988,046
	Non-varietal	359,342	39,927
	Total white	**9,251,756**	**1,027,973**
Red (47%)	Varietal	7,493,118	832,569
	Non-varietal	1,202,678	133,631
	Total red	**8,695,796**	**966,200**
Rosé (4%)	Varietal	343,029	38,114
	Non-varietal	368,809	40,979
	Total rosé	**711,838**	**79,093**

Popular single-varietal table wines

The top four red and white varietals remain the same as in previous years. Cabernet Franc overtook Pinot Noir as the top varietal red.

This table includes the top four varieties used in wines that are labelled with a single grape variety. These wines must contain at least 85% of the stated variety.

	Varietal	Litres	Cases (9L)
White	Chardonnay	2,291,084	254,565
	Riesling	2,146,775	238,531
	Pinot Gris/Pinot Grigio	1,232,281	136,920
	Sauvignon Blanc	582,005	64,667
Red	Cabernet Franc	1,091,903	121,323
	Merlot	902,034	100,226
	Pinot Noir	865,584	96,176
	Baco Noir	560,210	62,246

Icewine

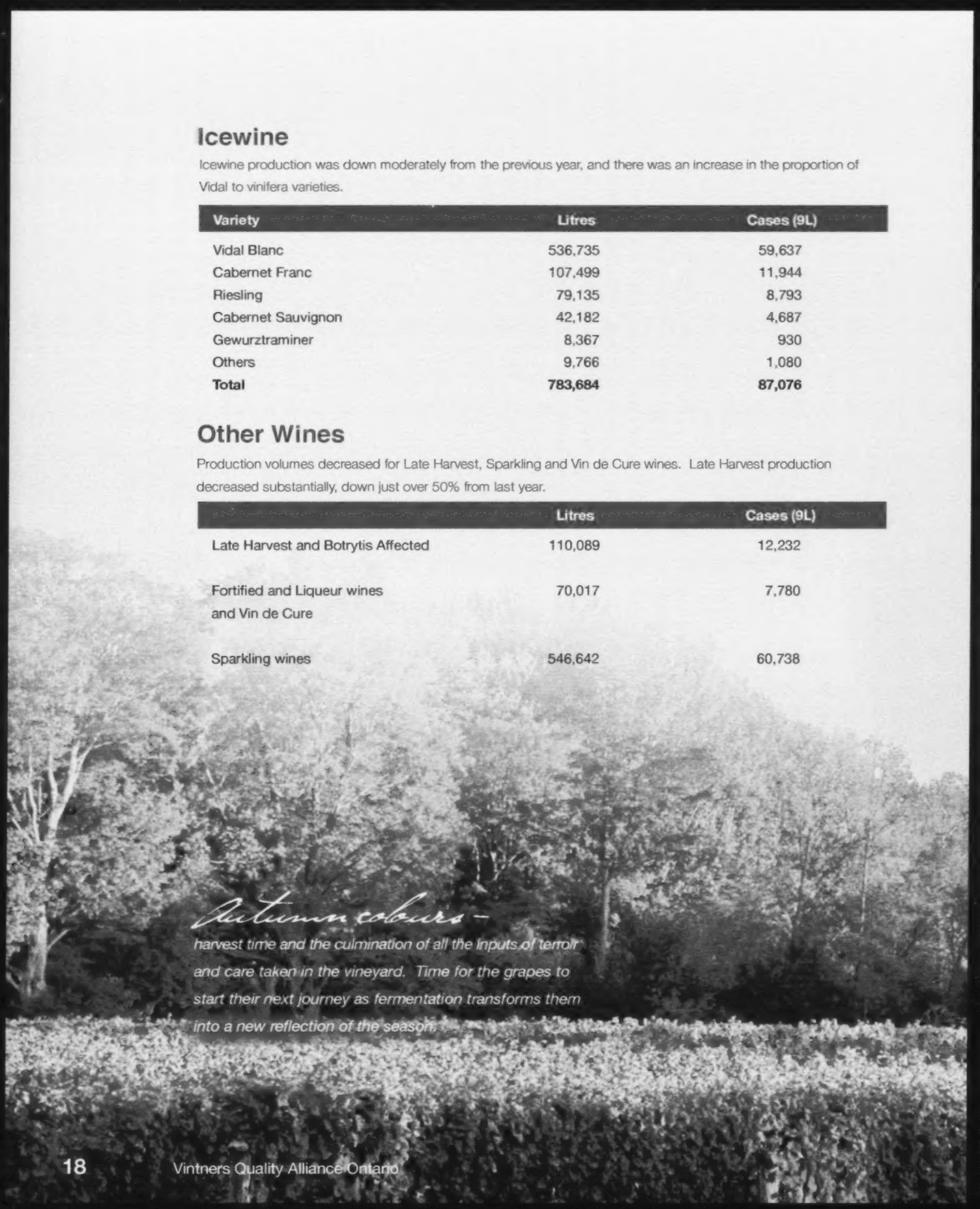
Icewine production was down moderately from the previous year, and there was an increase in the proportion of Vidal to vinifera varieties.

Variety	Litres	Cases (9L)
Vidal Blanc	536,735	59,637
Cabernet Franc	107,499	11,944
Riesling	79,135	8,793
Cabernet Sauvignon	42,182	4,687
Gewurztraminer	8,367	930
Others	9,766	1,080
Total	**783,684**	**87,076**

Other Wines

Production volumes decreased for Late Harvest, Sparkling and Vin de Cure wines. Late Harvest production decreased substantially, down just over 50% from last year.

	Litres	Cases (9L)
Late Harvest and Botrytis Affected	110,089	12,232
Fortified and Liqueur wines and Vin de Cure	70,017	7,780
Sparkling wines	546,642	60,738



Autumn colours –
harvest time and the culmination of all the inputs of terroir and care taken in the vineyard. Time for the grapes to start their next journey as fermentation transforms them into a new reflection of the season.

VQA Ontario Wine Sales

Year ending March 31, 2016

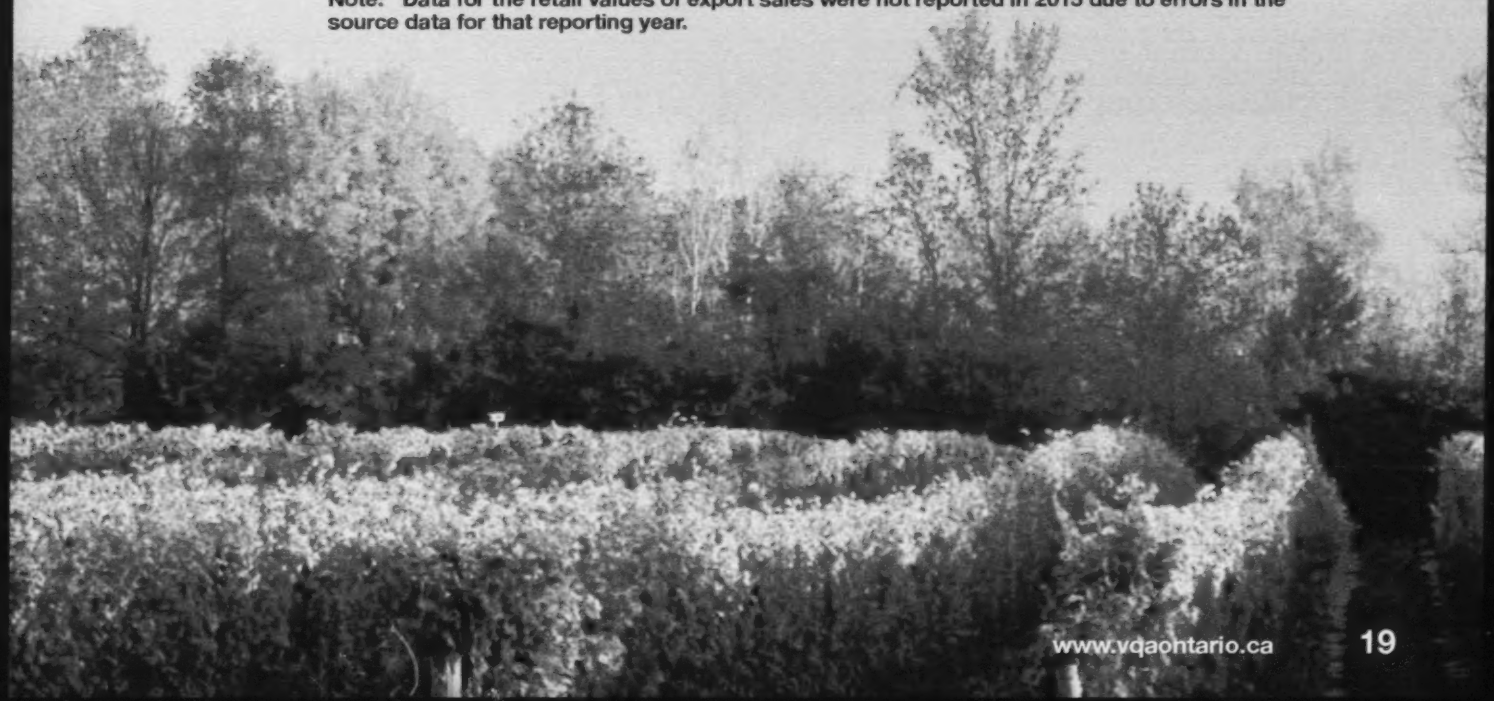
By Volume

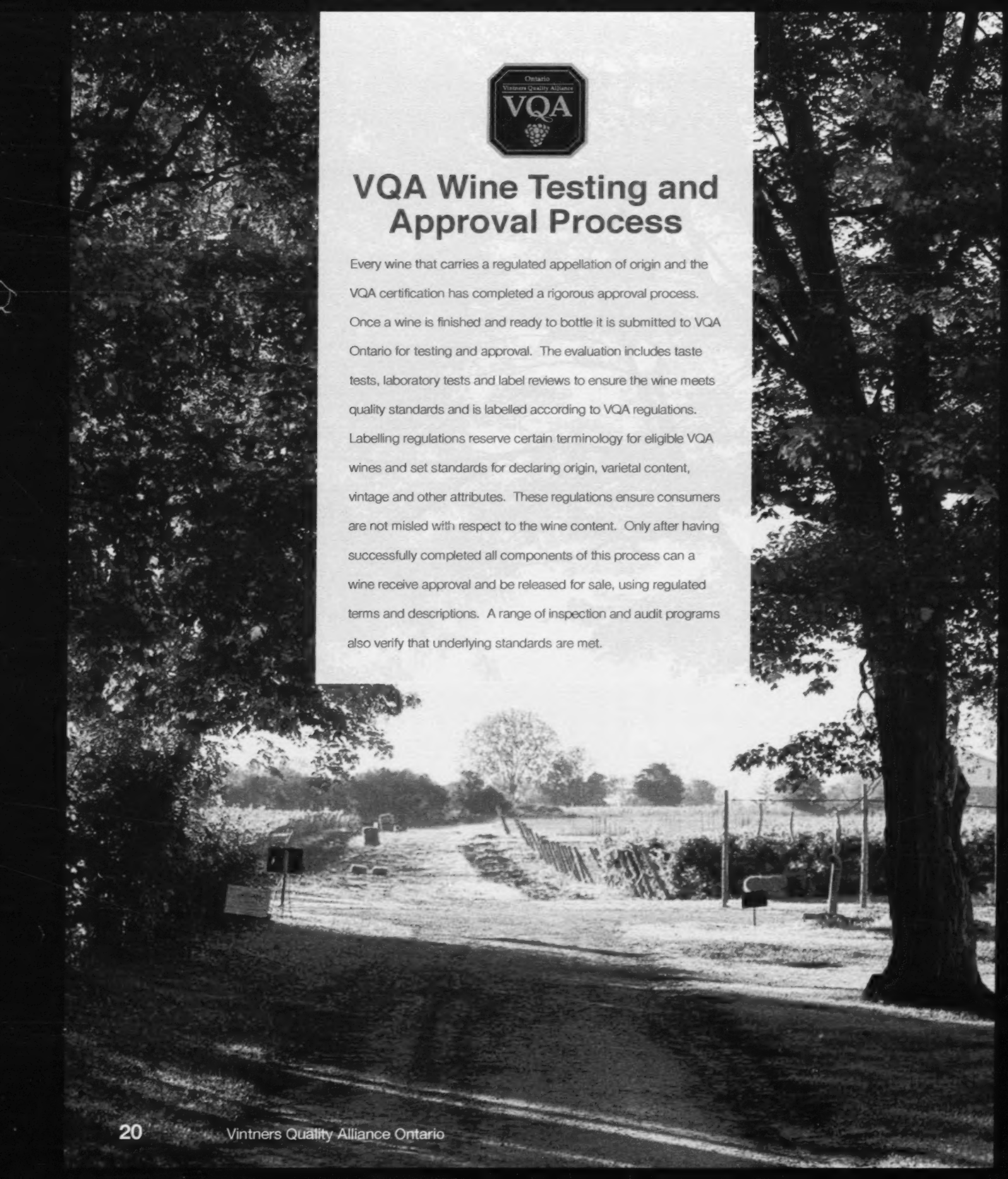
	Litres (2016)	Litres (2015)	% Change
Winery Retail	5,698,955	5,560,975	+2.5
Licensees	3,868,764	3,478,268	+11.2
LCBO (shipped)	8,287,375	7,340,259	+12.9
Farmers Markets	73,650	62,392	+18.0
Other Provinces	537,929	520,298	+3.4
Export and Miscellaneous	1,059,014	898,107	+17.9
Total	**19,525,686**	**17,860,299**	**+9.3**

By Retail Value

	Retail value ($) (2016)	Retail value ($) (2015)	% Change
Winery Retail	140,283,811	130,004,230	+7.9
Licensees	62,759,962	55,522,571	+13.0
LCBO (shipped)	124,431,237	116,578,778	+6.7
Farmers Markets	1,642,944	1,451,371	+13.2
Other Provinces	11,611,137	10,467,476	+10.9
Export and Miscellaneous	49,822,931	Not reported	n/a
Total	**390,552,022**	**314,024,426**	**n/a**

Note: Data for the retail values of export sales were not reported in 2015 due to errors in the source data for that reporting year.





VQA Wine Testing and Approval Process

Every wine that carries a regulated appellation of origin and the VQA certification has completed a rigorous approval process. Once a wine is finished and ready to bottle it is submitted to VQA Ontario for testing and approval. The evaluation includes taste tests, laboratory tests and label reviews to ensure the wine meets quality standards and is labelled according to VQA regulations. Labelling regulations reserve certain terminology for eligible VQA wines and set standards for declaring origin, varietal content, vintage and other attributes. These regulations ensure consumers are not misled with respect to the wine content. Only after having successfully completed all components of this process can a wine receive approval and be released for sale, using regulated terms and descriptions. A range of inspection and audit programs also verify that underlying standards are met.

Activities

Applications for wine approval evaluated – 1869

Number of wines approved for VQA status – 1803

Performance Measures

Wine Approvals

Overall success rate – 97%

Laboratory analysis:

Average time to completion – 12 days

% of tests completed within 15 days – 83%

% of tests completed within 21 day target – 97%

Pass rate at laboratory – 99.4% (final status)

Sensory analysis:

Average time to completion – 6 days

% of tests completed within 15 days – 98.9%

% of tests completed within 21 day target – 99.7%

Pass rate at sensory panel – 97.5% (final status)

Online query and reporting system uptime – 99.7% (99.4% during business hours)

Compliance and Enforcement

VQA Ontario enforces compliance with the VQA Act and regulations as its primary mandate. In addition to the testing completed during the wine approval process, the regulatory process includes monitoring of grape quality at harvest through independent sugar testing, and regular audits and inspections related to wine origin and content, wine making processes, record-keeping, labelling and advertising. These steps ensure that the wine meets the technical standards, the label complies with the regulations and that the wine offered for sale has completed the approval process.

Activities

Full on-site audits - 182

Retail store inspections - 140

Investigations - 2

Random testing of approved wines - 30

Warnings and minor corrective orders issued - 49

Compliance orders issued – 3

Charges laid – 0

Performance Measures

Percentage of audits completed with no issues raised – 77%

Percentage of wines found to be compliant during audits - 99%

Percentage of wines found to be compliant during inspections – 99%

Percentage of wines found to be compliant upon random chemical analysis – 100%

The overall level of compliance with VQA regulations within Ontario continues to be very good. The majority of infractions are relatively minor and many potential issues are flagged and corrected before products reach the consumer market. Winery compliance with correction requests is excellent and few infractions require enforcement action to achieve compliance.

Financial Summary

VQA Ontario is funded by its member wineries through sales levies and fees for service. It continues to seek out ways to maximize the efficiency of service delivery, including sharing services with other agencies. VQA Ontario acknowledges the Liquor Control Board of Ontario for its valued assistance and cooperation in providing contracted services that increase VQA Ontario's efficiency in performing its regulatory role.

This summary is drawn from the auditor's report and financial statements for the year ended March 31, 2016.

Revenue exceeded expenditures by $120,238 for the year ended March 31, 2016. Total revenue was $1,838,049, up from the previous year mainly due to the receipt of funding from OMAFRA to conduct the Wine and Grape Industry Performance Study. Total expenses were $1,717,811. Net assets are $923,575 and include funds for general use, capital and intangible assets, and a legal and enforcement reserve.

Revenue for fiscal 2016 was derived primarily from sales levies ($896,175) and approval fees ($512,101).

Major components of the approximately $1.7 million in expenses were wine approvals and quality monitoring ($572,250), employee costs ($444,059), public education ($250,000) and contracted services ($216,856).

Financial Statements

For the year ended March 31, 2016

Kopstick Osher, LLP
Chartered Professional Accountants

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In association with
Reiner Goebel, CPA, CA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Vintners Quality Alliance Ontario

We have audited the accompanying financial statements of Vintners Quality Alliance Ontario which comprise the statements of financial position as at March 31, 2016, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Vintners Quality Alliance Ontario as at March 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Kopstick Osher

KOPSTICK OSHER, LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 8, 2016

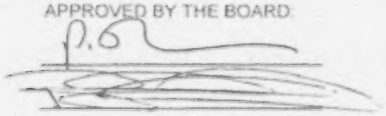
Statement of Financial Position

As at March 31, 2016

	2016	2015
ASSETS		
Current		
Cash	$ 296,289	$ 268,363
Investments - Note 3	596,369	569,295
Accounts receivable - Note 4	222,494	92,627
Prepaid expenses	7,967	70,325
	1,123,119	1,000,610
Investments - Note 3	86,471	107,839
Capital - Note 5	4,166	4,788
Intangible - Note 6	15,157	11,040
	$ 1,228,913	$ 1,124,277
LIABILITIES		
Current		
Accounts payable and accruals - Note 7	$ 284,064	$ 303,305
Deferred revenue - Note 8	21,274	17,635
	305,338	320,940
NET ASSETS		
Invested in capital and intangible assets	19,324	15,829
Internally restricted for legal and enforcement fund	200,000	200,000
Unrestricted	704,251	587,508
	923,575	803,337
	$ 1,228,913	$ 1,124,277

The accompanying notes form an integral part of these financial statements

APPROVED BY THE BOARD



Statement of Changes in Net Assets

For the year ended
March 31, 2016

	Invested in capital and intangible assets	Internally restricted for legal and enforcement fund (note 9)	Unrestricted	2016 Total	2015 Total
Net assets - beginning of year	$ 15,829	$ 200,000	$ 587,508	$ 803,337	$ 762,612
Excess of revenues over expenses	-	-	120,238	120,238	40,725
Purchase of capital assets	1,004	-	(1,004)	-	-
Purchase of intangible assets	9,000	-	(9,000)	-	-
Amortization	(6,509)	-	6,509	-	-
Net assets - end of year	$ 19,324	$ 200,000	$ 704,251	$ 923,575	$ 803,337

The accompanying notes
form an integral part of
these financial statements

Statement of Operations

For the year ended March 31, 2016

	2016	2015
Revenues		
Membership fees	$ 153,500	$ 150,500
Bottle fees	896,175	850,103
Approval fees	512,101	534,116
Ontario government grant - OMAFRA	250,000	-
Federal government grant - IRAP	-	15,000
Interest income	6,260	6,508
Other income	20,013	16,760
	1,838,049	1,572,987
Expenses		
Salaries and benefits	444,959	383,854
Contracted services	216,856	16,000
Public education	250,000	250,000
Approvals	572,250	614,229
Quality assurance and inspection	15,657	14,819
Export development and trade	1,694	10,404
Appellations	23,537	18,676
Weather monitoring	4,000	4,000
Meetings	9,737	5,370
Travel	6,091	4,249
Rent and occupancy	38,400	38,400
Office and general	24,284	30,833
Printing and mailing	13,596	10,196
Telephone and communications	10,388	9,135
Insurance	9,170	17,131
Professional services	70,683	96,627
Amortization of capital assets	1,626	1,765
Amortization of intangible assets	4,883	6,574
	1,717,811	1,532,262
Excess of revenues over expenses	$ 120,238	$ 40,725

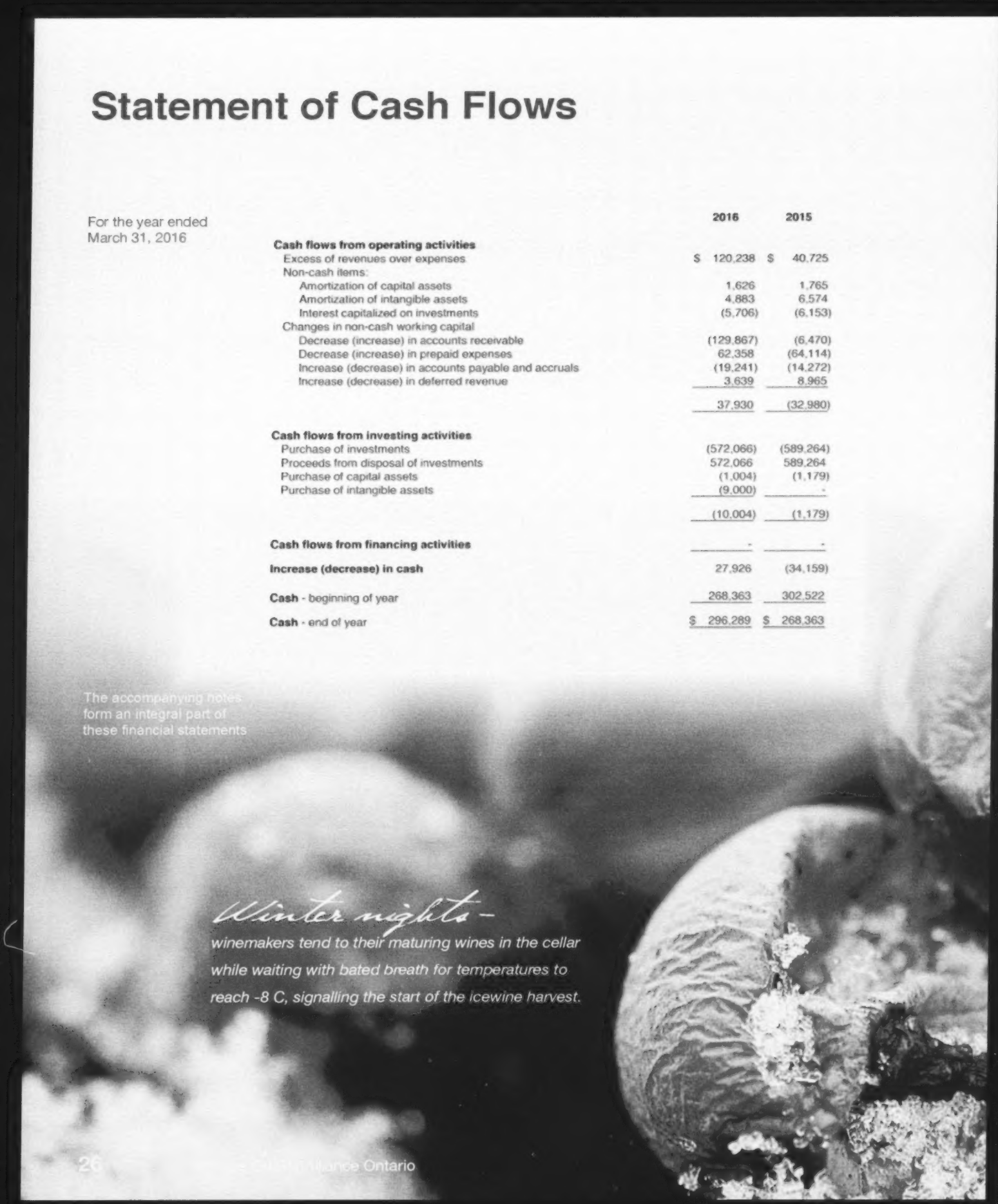
The accompanying notes form an integral part of these financial statements

Statement of Cash Flows

For the year ended March 31, 2016

	2016	2015
Cash flows from operating activities		
Excess of revenues over expenses	$ 120,238	$ 40,725
Non-cash items:		
Amortization of capital assets	1,626	1,765
Amortization of intangible assets	4,883	6,574
Interest capitalized on investments	(5,706)	(6,153)
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	(129,867)	(6,470)
Decrease (increase) in prepaid expenses	62,358	(64,114)
Increase (decrease) in accounts payable and accruals	(19,241)	(14,272)
Increase (decrease) in deferred revenue	3,639	8,965
	37,930	(32,980)
Cash flows from investing activities		
Purchase of investments	(572,066)	(589,264)
Proceeds from disposal of investments	572,066	589,264
Purchase of capital assets	(1,004)	(1,179)
Purchase of intangible assets	(9,000)	-
	(10,004)	(1,179)
Cash flows from financing activities	-	-
Increase (decrease) in cash	27,926	(34,159)
Cash - beginning of year	268,363	302,522
Cash - end of year	$ 296,289	$ 268,363

The accompanying notes form an integral part of these financial statements



Winter nights –

winemakers tend to their maturing wines in the cellar while waiting with bated breath for temperatures to reach -8 C, signalling the start of the icewine harvest.

Notes to Financial Statements

March 31, 2016

1. **Purpose and legal form of the organization**

   Vintners Quality Alliance Ontario is an independent organization that administers the Vintners Quality Alliance Act, 1999 and its regulations through an administrative agreement with the Ontario government. It establishes, monitors and enforces a system of quality assurance and verification of product origin for wines bearing the VQA logo.

   Vintners Quality Alliance Ontario exists as a not-for-profit corporation without share capital. It is not subject to income tax.

2. **Significant accounting policies**

   Basis of presentation

   The financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

   Revenue recognition

   Vintners Quality Alliance Ontario follows the deferral method of accounting for revenues. All revenues are recognized in the year to which they pertain.

   Investments

   Investments consist of guaranteed investment certificates (GIC's). GIC's maturing within twelve months from the year-end are classified as current. GIC's with maturity dates of greater than twelve months from the year-end date are classified as long-term.

   Capital assets

   Capital assets are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at the following annual rates:

Computer equipment	20%
Office furniture and equipment	20%

   Intangible assets

   Intangible assets consist of computer software and are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at 20%.

   Contributed materials and services

   The organization receives substantial contributed services from members and others through participation on the Board of Directors and other committees. Because of the difficulty in determining their fair value, such services are not recorded in these financial statements.

Notes to Financial Statements

March 31, 2016

2. Significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. Actual results may differ from the estimates, the impact of which would be recorded in future periods. Significant estimates include the useful lives and rates of amortization of capital and intangible assets.

Financial instruments

The organization initially measures its financial assets and liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument. Subsequently, all financial instruments are measured at amortized cost.

Financial assets measured at amortized cost include cash, investments and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accruals.

3. Investments

	Face value	Amortized Cost
CIBC GIC - 0.65%, maturing July 15, 2016	$ 128,023	$ 128,616
CIBC GIC - 0.55%, maturing October 3, 2016	103,439	103,722
CIBC GIC - 1.10%, maturing October 17, 2016	107,302	109,020
CIBC GIC - 0.60%, maturing January 4, 2017	152,416	152,632
CIBC GIC - 0.60%, maturing January 26, 2017	102,271	102,379
CIBC GIC - 0.70%, maturing April 28, 2017	85,916	86,471
Total	679,367	682,840
Less: portion maturing within one year of the year-end date	593,451	596,369
Classified as long-term	85,916	86,471

At March 31, 2015, total investments at face value and amortized cost were $673,238 and $677,134, respectively.

Notes to Financial Statements

March 31, 2016

4. Accounts receivable

	2016	2015
Trade receivables owing from members	$ 81,149	$ 92,627
Receivable from Ontario government - OMAFRA	128,129	-
Harmonized sales tax recoverable	13,216	-
	$ 222,494	$ 92,627

5. Capital assets

	Cost	Accumulated Amortization	2016 Net Book Value	2015 Net Book Value
Computer equipment	$ 9,774	$ 7,487	$ 2,287	$ 2,513
Office furniture and equipment	9,832	7,953	1,879	2,275
	$ 19,606	$ 15,440	$ 4,166	$ 4,788

6. Intangible assets

	Cost	Accumulated Amortization	2016 Net Book Value	2015 Net Book Value
Computer software	$ 129,302	$ 114,145	$ 15,157	$ 11,040

7. Accounts payable and accruals

	2016	2015
Trade payables and accrued liabilities	$ 264,526	$ 270,871
Payroll taxes	19,538	11,322
Harmonized sales tax	-	21,112
	$ 284,064	$ 303,305

8. Deferred revenue

Deferred revenue represents membership fees and product approval fees received, which relate to the subsequent year.

9. Net assets internally restricted for legal and enforcement fund

Net assets of $200,000 have been restricted for a specific purpose. They may be used only for enforcing adherence to the regulations of the Vintners Quality Alliance Act.

Notes to Financial Statements

10. Financial instruments

Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that the organization would receive or pay to settle a financial asset or financial liability at the reporting date.

The carrying values of cash, investments, accounts receivable and accounts payable and accruals approximate their fair values due to their liquidity.

Risk management

Risk management is incorporated into the organization's day to day management activities and an annual review of risks is completed by the Board.

The organization has exposure to the following risk associated with its financial instruments.

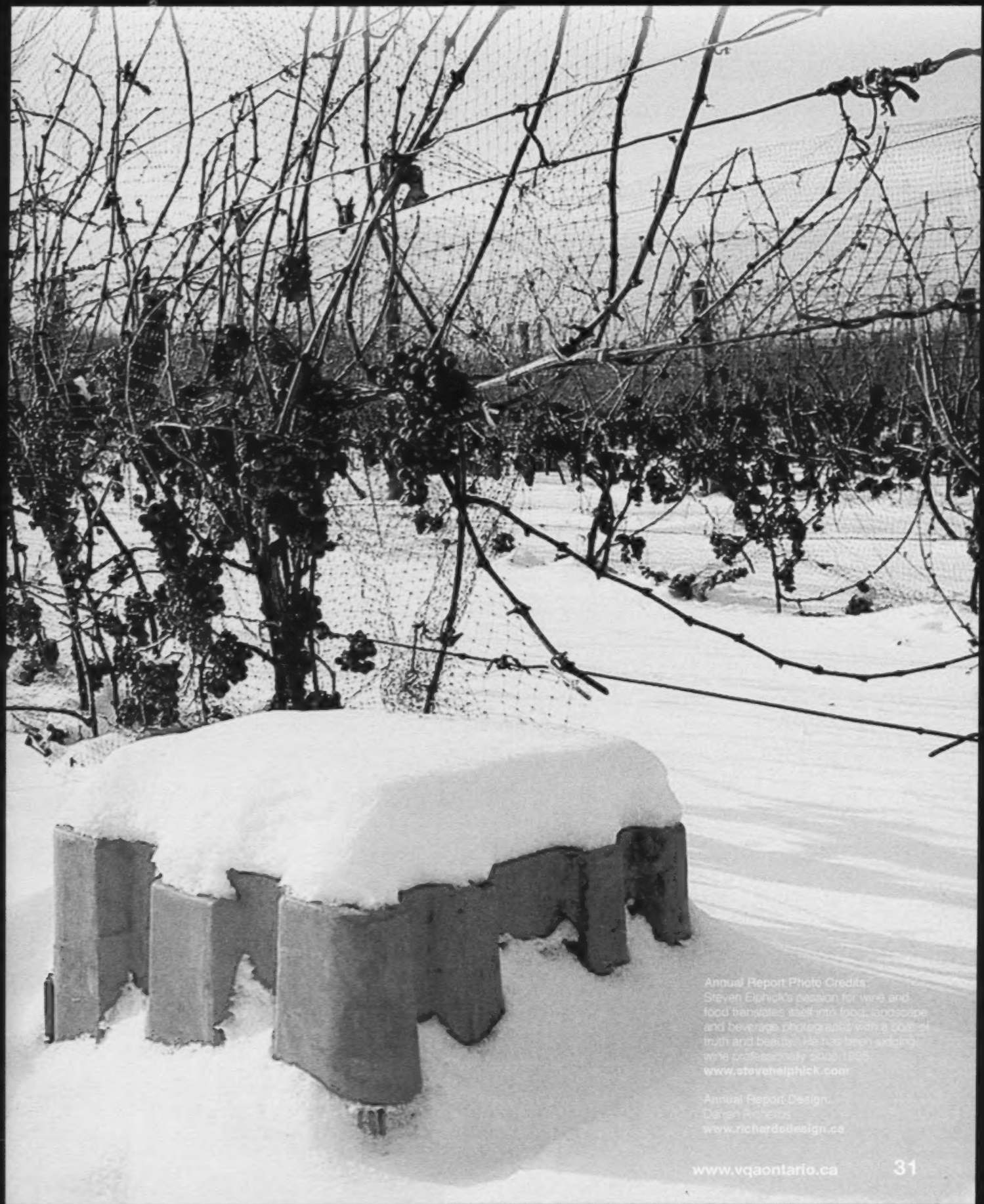
Credit risk
The organization maintains cash and investments, with financial institutions, which are in excess of amounts insured by the Canada Deposit Insurance Corporation (CDIC) and the Ontario Deposit Insurance Corporation (ODIC). Management monitors the soundness of these institutions and considers the organization's risk to be negligible.

11. Commitments

The organization has committed to renew an agreement with the Wine Marketing Association of Ontario to provide funding in support of activities to promote the awareness, understanding and use of the VQA appellations in the amount of $250,000, for the next fiscal year.

The organization leases office space under a sub-lease, with the LCBO, expiring August 31, 2020. Future minimum lease payments total $176,800 and include the following payments over the next five years: 2017 to 2018, $38,400 per annum; 2019, $40,500; 2020, $42,000; 2021, $17,500.

During the current fiscal year, the organization commenced a two year project to develop a benchmarking survey and an annual performance measurement report for the Ontario wine and grape industry. The Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) has agreed to provide funding for this project to a maximum of $450,000, over the two year period, to cover the projected costs of the same amount. In the first year ended, March 31, 2016, the organization received funding of $250,000 and has spent $248,594. As part of the project, the organization has entered into a two year contract with a third party consultant to provide services for the project. The expenses of the first year include $198,276 paid to the consultant. In the year ending March 31, 2017, $135,000 will be paid for consulting services.



Annual Report Photo Credits
Steven Elphick's passion for wine and food translates itself into food, landscape and beverage photography with a sense of truth and beauty. He has been editorial wine photography since 1998.
www.stevenelphick.com

Annual Report Design
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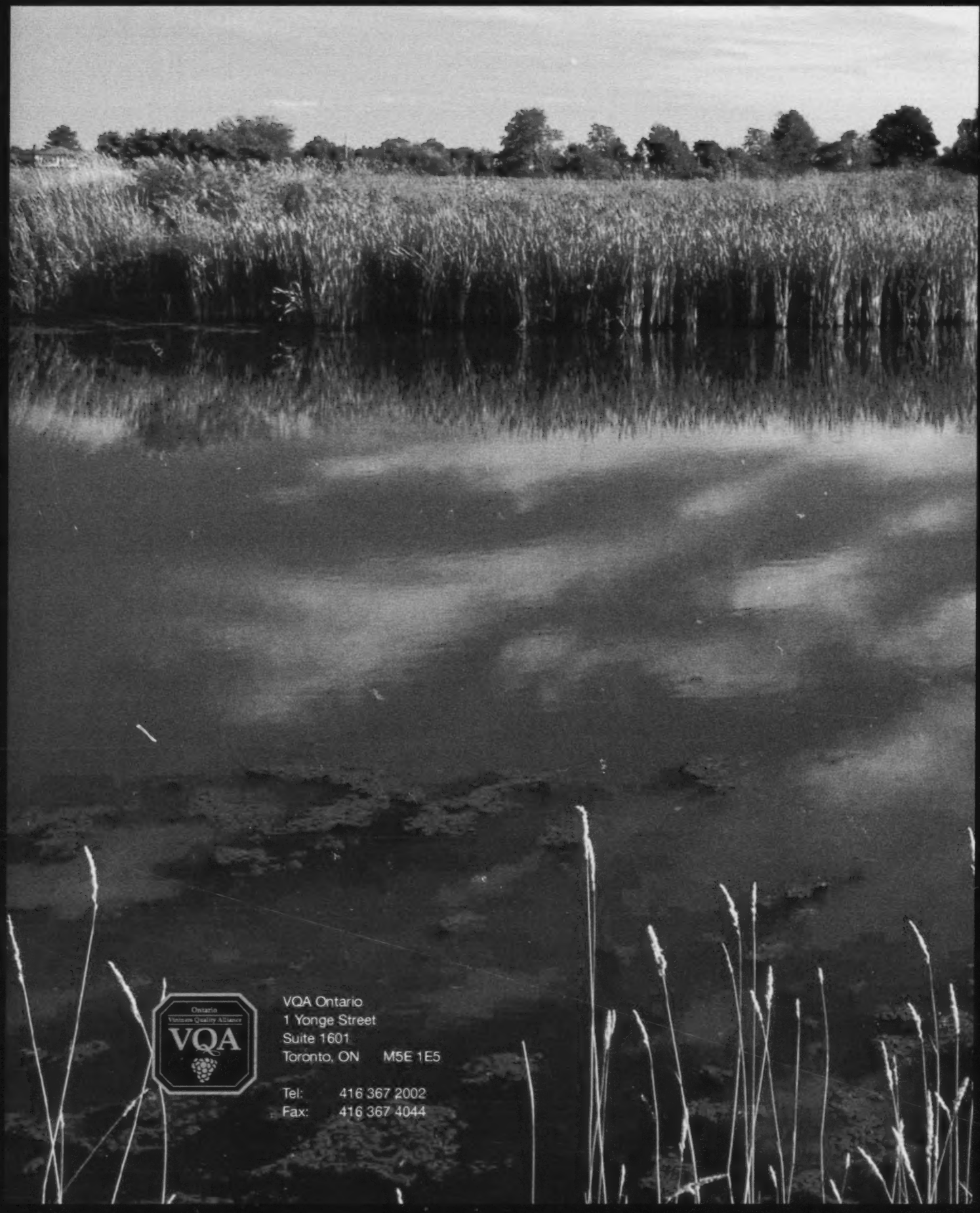

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